



CONSUMER FINANCIAL VULNERABILITY INDEX

A CONSUMER FINANCIAL VULNERABILITY INDEX FOR SOUTH AFRICA

Background

Consumer financial vulnerability is a topic that has become increasingly prominent in the media, commercial and central bank reports, credit bureaux records and even among ordinary people. The lack of a consumer financial vulnerability index makes it difficult to measure the extent and spread of consumer vulnerability in South Africa. How severe is the problem? Which sections of the population face the most financial stress, and is the situation improving or getting worse? To answer these and other questions, FinMark Trust commissioned the Bureau of Market Research to construct an index so that stakeholders can better understand consumer financial vulnerability in South Africa.

INDEX METHODOLOGY

The index was constructed from the responses of a consumer survey. This used a representative sample of 976 consumers from all nine provinces, comprising 571 telephone interviews and 405 face-to-face interviews. Another 60 key informants from municipalities, banks, retailers, credit bureaux and the motor industry were interviewed to explore and explain the findings of the consumer interviews. Various data analysis techniques were then applied to ensure the high integrity of the results.

Consumer financial vulnerability index – made up of four sub-indices

Financial vulnerability depends on various factors both outside a person's control, such as adverse economic conditions, and those that are specific, including levels of savings or debt. When assessing a person's financial vulnerability the following aspects must be taken into consideration.

- **Income vulnerability**, which includes job security, income growth, social grants and the ability to access transfers from family and friends.
- **Savings vulnerability**, which is influenced by the savings and assets that a person can access when times are tough.
- **Expenditure vulnerability**, which depends on various factors including whether a consumer is able to deal with rising costs of food and transport, or is living within his means.
- **Debt service vulnerability**, which is driven by the cost of servicing debt and the level of debt a consumer has.

A consumer financial vulnerability index must reflect the overall vulnerability of a consumer, but also capture the different dynamics influencing a consumer's profile for income, savings, expenditure and debt

INDEX FINDINGS

The overall index and sub-indices are based on a 10-point scale where 0 indicates total financial security and 10 indicates total financial vulnerability. Any score between 0 and 10 indicates that consumers are vulnerable to a greater or lesser extent.

Index score interpretation

0 – 1.99	2.0 – 3.99	4.0 – 5.99	6.0 – 7.99	8.0 – 10
Financially very secure	Financially secure	Somewhat Financially vulnerable	Financially vulnerable	Financially very vulnerable

The results of the survey are as follows:

TABLE 1: CONSUMER FINANCIAL VULNERABILITY INDEX

SA CONSUMER FINANCIAL VULNERABILITY	5.17
Comprising:	
Savings vulnerability	5.74
Expenditure vulnerability	5.54
Debt servicing vulnerability	4.37
Income vulnerability	5.64

With an overall score of 5.17, South Africans are significantly vulnerable. This score is high compared to European countries measured on a similar index, namely Sweden at 0.4, Norway 0.9, Denmark 1.3, Great Britain 3.1 and Ireland 3.4.

Looking at the different components of financial vulnerability, the sub-indices show that while debt is a problem, other factors are significant in causing many South Africans to be financially vulnerable. The very low level of savings in South Africa is reflected in the high savings vulnerability score of 5.74.

The high level of income vulnerability is partly explained by the national poverty rate of 47% of households. However, income vulnerability is being exacerbated by the economic downturn and job losses. Expenditure vulnerability is being spurred by the relatively high levels of consumer price inflation in South Africa, especially food price inflation.

A breakdown of the four sub-indices and the overall index scores by income group is provided in Table 2. Different income groups have different levels of vulnerability. Consumers earning in excess of R8 000 a month score 4.38, which is far lower than that of consumers earning less than R2 000 a month, whose index score is 6.27.

TABLE 2: FINANCIAL VULNERABILITY BY BROADER INCOME BAND

Income band	Income	Savings	Expenditure	Debt servicing	CFV index
R0 – R2 000 pm	6.69	7.06	6.30	5.12	6.27
R2 000 – R8 000 pm	5.38	5.38	6.01	4.38	5.11
R8 000+ pm	4.56	4.40	4.64	3.81	4.38
Total	5.64	5.74	5.54	4.37	5.16

The nationwide survey of South African consumers shows that respondents believe they are financially worse off than a year ago, with nearly 35% of respondents indicating that their ability to make ends meet deteriorated during the past year

INDEX FINDINGS

Table 3 provides a breakdown of the overall index and the sub-indices by gender. Females are marginally more financially vulnerable than males in income and savings because females on average earn less than males. However, the bulk of mortgages and vehicle finance agreements are entered into by males making them more vulnerable when keeping up repayments.

TABLE 3: FINANCIAL VULNERABILITY BY GENDER

Gender	Income vulnerability	Savings vulnerability	Expenditure vulnerability	Debt servicing vulnerability	CFV index
Male	5.50	5.62	5.64	4.44	5.15
Female	5.70	5.79	5.49	4.34	5.17
Total	5.64	5.74	5.54	4.37	5.16

There are provincial differences (see Table 4). The consumer income and savings sub-indices also reflect the poverty in the country as many poor people are struggling to survive and have very little money to save.

TABLE 4: FINANCIAL VULNERABILITY BY PROVINCE

Province	Income vulnerability	Savings vulnerability	Expenditure vulnerability	Debt servicing vulnerability	CFV index
Eastern Cape	6.06	6.44	6.21	4.69	5.62
Free State	5.35	5.45	3.64	3.48	4.32
Gauteng	5.66	5.80	5.12	4.42	5.14
KwaZulu-Natal	5.10	4.88	5.13	4.44	4.93
Limpopo	5.39	6.08	5.86	3.99	5.12
Mpumalanga	6.78	7.13	7.35	4.77	6.11
Northern Cape	6.87	6.86	8.37	4.88	6.18
North West	5.11	4.71	5.35	4.77	5.01
Western Cape	5.97	5.21	5.36	4.00	5.08
Total	5.64	5.74	5.54	4.37	5.16

Table 5 sets out an estimate of consumer financial vulnerability for the period 2001 to 2008.

TABLE 5: CONSUMER FINANCIAL VULNERABILITY ESTIMATES, 2001 TO 2009

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Income vulnerability	4.3	4.2	4.0	3.2	3.2	2.9	3.2	4.2	5.6
Savings vulnerability	4.4	4.4	4.4	4.6	4.6	4.9	4.9	4.8	5.7
Expenditure vulnerability	5.3	6.5	5.3	3.9	4.5	4.9	5.8	7.3	5.5
Debt servicing vulnerability	3.1	3.0	3.1	3.3	3.7	4.1	4.4	4.4	4.4
Financial vulnerability	3.9	4.0	3.8	3.5	3.7	3.8	4.1	4.6	5.2

INDEX FINDINGS

Other findings of the research include:

- Nearly 45% of respondents said that what they spend is restricted by what they can borrow.
- Although respondents see the need for saving, SA Reserve Bank data shows that South Africans generally save very little. Probed about why they were not saving, about 35% of respondents indicated that they were struggling to make ends meet and did not have enough money to save.
- The provinces with the highest levels of vulnerability, the Eastern Cape, the Northern Cape and Mpumalanga, are among the poorest provinces.
- Consumers in more affluent provinces like Gauteng, although less vulnerable, still face financial stresses due to high debt levels and debt service costs.
- Rural dwellers are the most financially vulnerable, especially with income and savings.
- Financial vulnerability is high in the age group 26 to 34 years when many young people are starting new jobs, marrying, setting up homes, and buying property and cars.
- People in the 45+ year age group are also vulnerable. Many become economically less active, widowed, divorced or dependent on children or the state for income as pensioners.
- Divorced and widowed people have a substantially higher level of overall financial vulnerability than those who never married and those who are married.
- Educational status is a strong predictor of vulnerability, and the lower the educational status of consumers, the higher their financial vulnerability.

TABLE 6: 10 MAJOR REASONS FOR HOUSEHOLDS EXPERIENCING FINANCIAL DIFFICULTY

Reason	Never (%)	Sometimes (%)	Often (%)
Unexpected expenses	53.6	26.9	19.4
Rising interest rates	53.8	23.9	22.3
Too much debt	62.1	24.5	13.4
Low income	63.9	18.4	17.7
Major necessary expenses	64.7	22.2	13.2
Not sufficient savings to draw on	66.4	17.8	15.9
Spending more than is earned	66.8	21.5	11.7
Carrying debts of partner/spouse/family/friends	74.3	15.7	10.0
Not receiving a cash income	74.9	12.5	12.3
Drop in income	75.1	13.6	11.3

A copy of the full report, *A Consumer Financial Vulnerability (CFV) Index for South Africa*, is available on the FinMark Trust website: www.finmarktrust.org.za For more information contact **Rashid Ahmed**: rashida@finmark.org.za or **Marlene Heymans**: marlene.heymans@vodamail.co.za

About FinMark Trust and the Bureau of Market Research

FinMark Trust is an independent trust created with initial funding from the UK's Department for International Development (DFID). The trust supports and promotes institutional and organisational development with the objective of increasing access to financial services to the unbanked and underbanked people of Southern Africa.

The Bureau of Market Research (BMR) was established in 1960 as a collaborative effort between UNISA and industry. The BMR has four focus areas, namely demographic research, behaviour and communication research, income and expenditure research and economic research. The BMR provides contract research, syndicated research, skills development and database mining services to clients and BMR members.

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